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S-08341

MEMORANDUM FOR: [redacted]

The attached memorandum on Israeli inflation was prepared for the Vice-President at your request.

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CIA/OER/S-08341-75

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[redacted]

Deputy Director
Economic Research

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[redacted]

17 July 1975
(DATE)

[redacted]

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FORM NO. 101 REPLACES FORM 10-101
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The Israeli Inflation Situation

Israel is likely to experience an inflation rate on the order of 20% this year, about half the 1974 rate but still well above that recorded in the immediate pre-war years.

Israel is accustomed to rapid inflation. In 1971-72, for example, prices rose 12% a year, reflecting government policies that placed a premium on rapid growth and full employment.

Inflation accelerated to 40% in 1974 largely because of spiralling import prices. For example, prices of raw materials and semi-manufactures, which account for the lion's share of Israel's imports, shot up 49% compared with increases of less than 5% annually in 1971 and 1972. Reductions in government subsidies and increased fuel charges and utility taxes also added to the country's inflation. Price pressures resulting from Israel's heightened defense burden probably were relatively minor because increased assistance from the United States was available to defray a major part of Israel's defense bill. Israeli export competitiveness was maintained through adjustments in export rebates and devaluation of the Israeli pound in November.

The impact of rapid inflation on the Israeli consumer was largely offset by generous cost-of-living adjustments, which pushed average monthly wages in Israel up 45% in 1974.

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Only minor changes in income patterns were observed: hardest hit were the poor who saw their food costs rise sharply when government subsidies on basic foodstuffs were reduced.

The slowing of inflation in 1975 is due solely to the levelling off of import prices. We see no evidence that Prime Minister Rabin has changed his basic economic policies, which give priority to maintaining full employment and sufficient economic growth to attract and absorb new immigrants. The government is thus unlikely to significantly restrict economic activity in order to slow inflation. Wages continue to increase rapidly, because of a 30% pay raise in January and another 10% expected as a result of labor negotiations now underway. Consequently inflation will continue.